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Rating	Accumulate
Price	Rs172
Target Price	Rs180
Implied Upside	4.7%
Sensex	26,819
Nifty	8,296

(Prices as on November 11, 2016)

### Trading data

Market Cap. (Rs bn)	355.9
Shares o/s (m)	2,065.2
3M Avg. Daily value (Rs m)	1823.5

### Major shareholders

Promoters	36.99%
Foreign	21.46%
Domestic Inst.	17.96%
Public & Other	23.59%

### Stock Performance

(%)	1M	6M	12M
Absolute	7.3	88.2	114.8
Relative	11.8	83.4	111.1

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	19.8	12.2	62.4
2018	22.3	15.8	40.7

### Price Performance (RIC: HALC.BO, BB: HNDL IN)



Source: Bloomberg

**Hindalco (HNDL) reported Q2FY17 earnings below our estimates due to higher than expected costs in Aluminium (Al) business and lower by-product realisations in Copper (Cu) business. Costs were higher in Al biz due to fall in grade of coal supplied by Coal India (attributed to heavy monsoons) and higher Alumina cost sourced from Utkal Alumina. We keep our estimates unchanged as strong availability of domestic coal, stable prices of crude derivatives and full stabilisation of new smelters would keep costs low. Low capex requirement, focus on margin reach downstream product portfolio and Improved outlook on Novelis operations with swift transition to high margin Auto segment keeps outlook on strong footing. We maintain Accumulate rating with TP of Rs180, EV/EBITDA of 6.5x FY18E.**

- **Earnings hit primarily due to abnormal seasonal factors:** Al sales vol came higher than est. at 320kt ( $\uparrow 10\%$  QoQ/ $\uparrow 16\%$  YoY v/s PLe: 310kt). Cu sales vol were tad below our est. at 102kt ( $\uparrow 63\%$  QoQ/ $\downarrow 2\%$  YoY v/s PLe: 105kt). Al EBITDA fell 7% QoQ ( $\uparrow 192\%$  YoY) at Rs8.1bn (PLe:Rs9.7bn) on account of higher energy costs and higher share of exports (has lower margins v/s domestic). Cu EBITDA rose 38% QoQ (flat YoY) at Rs3.7bn (PLe:Rs4.4bn) as prior quarter was impacted due to planned shutdown. Led by strong earnings in Al, EBITDA rose 88% YoY at Rs11.6bn (PLe: Rs14.1bn). Aided by higher than expected other income, Adj. PAT rose 29% QoQ (2x YoY) to Rs3.8bn (PLe:Rs4.2bn).
- **Key highlights of Con-call:** **1)** Hopeful that restriction in form of MIP or Anti-dumping duty on imports would be imposed before budget **2)** Focused on B/S deleveraging with targeted Net debt/EBITDA at 4x/3x by FY18E/FY19E **3)** Given the debt reduction being a top priority, capex in next couple of years would be towards less capex intensive downstream capacity addition **4)** Reiterated capex guidance of Rs10bn/year for next couple of years **5)** The mix between source of coal between linkage/E-auction/imports stands at 60%:35%:5% **6)** Repaid debt of Rs8.7bn in H1 **7)** Net Debt (standalone+Utkal) stands at Rs19.2bn.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	1,042,811	1,000,538	1,047,110	1,100,522
Growth (%)	18.9	(4.1)	4.7	5.1
EBITDA (Rs m)	89,446	87,240	131,467	136,298
PAT (Rs m)	13,323	1,296	40,819	45,953
EPS (Rs)	6.5	0.6	19.8	22.3
Growth (%)	(46.6)	(90.3)	3,050.5	12.6
Net DPS (Rs)	1.0	1.0	1.2	1.5

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	8.6	8.7	12.6	12.4
RoE (%)	3.4	0.3	10.1	10.4
RoCE (%)	3.3	3.0	6.6	6.8
EV / sales (x)	0.9	1.0	0.9	0.9
EV / EBITDA (x)	11.0	11.3	7.5	7.0
PE (x)	26.7	274.7	8.7	7.7
P / BV (x)	0.9	0.9	0.8	0.8
Net dividend yield (%)	0.6	0.6	0.7	0.9

Source: Company Data; PL Research

**Exhibit 1: Q2FY17 Result Overview (Rs m)**

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
<b>Net Sales</b>	<b>90,123</b>	<b>89,149</b>	<b>1.1</b>	<b>75,847</b>	<b>165,970</b>	<b>174,901</b>	<b>(5.1)</b>
Raw Material	48,073	53,010	(9.3)	36,381	84,454	101,898	(17.1)
% of Net Sales	53.3	59.5		48.0	50.9	58.3	
Staff Costs	4,815	4,441	8.4	4,077	8,892	8,226	8.1
% of Net Sales	5.3	5.0		5.4	5.4	4.7	
Power & Fuel	14,823	16,821	(11.9)	14,849	29,671	33,263	(10.8)
% of Net Sales	16.4	18.9		19.6	17.9	19.0	
Other Expenses	10,848	8,731	24.2	9,294	20,142	16,685	20.7
% of Net Sales	12.0	9.8		12.3	12.1	9.5	
Total Expenditure	78,559	83,003	(5.4)	64,600	143,159	160,071	(10.6)
<b>EBITDA</b>	<b>11,564</b>	<b>6,146</b>	<b>88.2</b>	<b>11,247</b>	<b>22,811</b>	<b>14,830</b>	<b>53.8</b>
Margin (%)	12.8	6.9		14.8	13.7	8.5	
Depreciation	3,516	2,988	17.7	3,382	6,898	6,295	9.6
Other income	3,364	4,597	(26.8)	2,262	5,626	5,960	(5.6)
<b>EBIT</b>	<b>11,412</b>	<b>7,755</b>	<b>47.2</b>	<b>10,127</b>	<b>21,539</b>	<b>14,494</b>	<b>48.6</b>
Interest	5,943	6,275	(5.3)	5,996	11,938	12,314	(3.1)
<b>PBT</b>	<b>5,469</b>	<b>1,480</b>	<b>269.6</b>	<b>4,131</b>	<b>9,600</b>	<b>2,180</b>	<b>340.4</b>
Extraordinary income/(expense)	849	-		-	849	-	
<b>PBT (After EO)</b>	<b>6,318</b>	<b>1,480</b>	<b>326.9</b>	<b>4,131</b>	<b>10,449</b>	<b>2,180</b>	<b>379.3</b>
Tax	1,929	243	694.6	1,189	3,117	329	847.8
% PBT	30.5	16.4		28.8	29.8	15.1	
<b>Reported PAT</b>	<b>4,389</b>	<b>1,237</b>	<b>254.8</b>	<b>2,943</b>	<b>7,332</b>	<b>1,851</b>	<b>296.1</b>
<b>Adjusted PAT</b>	<b>3,800</b>	<b>1,237</b>	<b>207.1</b>	<b>2,943</b>	<b>6,736</b>	<b>1,851</b>	<b>263.9</b>

Source: Company Data, PL Research

**Exhibit 2: Operating Metrics**

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
LME Aluminum average (US\$)	1,618	1,595	1.5	1,572	1,595	1,681	(5.1)
LME Copper average (US\$)	4,775	5,274	(9.5)	4,736	4,756	5,660	(16.0)
Rs/US\$	67.0	64.9	3.2	66.9	67.0	64.2	4.3
<b>Production (tonnes)</b>							
Aluminiujm	321,000	269,000	19.3	308,000	629,000	533,000	18.0
Copper	106,000	100,000	6.0	65,000	171,000	202,000	(15.3)
<b>Segment-wise break-up</b>							
<b>Revenue (Rs m)</b>							
Aluminum	49,302	44,961	9.7	45,906	95,208	84,617	12.5
Copper	46,348	50,706	(8.6)	35,710	82,058	96,847	(15.3)
<b>EBIT (Rs m)</b>							
Aluminum	8,076	2,767	191.9	8,711	16,787	8,263	103.2
Copper	3,659	3,662	(0.1)	2,643	6,302	7,641	(17.5)

Source: Company Data, PL Research

**Income Statement (Rs m)**

<b>Y/e March</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
<b>Net Revenue</b>	<b>1,042,811</b>	<b>1,000,538</b>	<b>1,047,110</b>	<b>1,100,522</b>
Raw Material Expenses	651,631	598,935	635,163	668,863
Gross Profit	391,180	401,603	411,947	431,659
Employee Cost	79,912	81,381	76,750	80,822
Other Expenses	221,822	232,982	203,729	214,538
<b>EBITDA</b>	<b>89,446</b>	<b>87,240</b>	<b>131,467</b>	<b>136,298</b>
Depr. & Amortization	35,906	41,961	47,207	48,821
Net Interest	41,784	50,467	47,999	44,237
Other Income	(8,354)	8,842	15,056	15,487
<b>Profit before Tax</b>	<b>3,402</b>	<b>3,654</b>	<b>51,318</b>	<b>58,728</b>
Total Tax	2,564	5,148	13,198	14,706
<b>Profit after Tax</b>	<b>838</b>	<b>(1,494)</b>	<b>38,120</b>	<b>44,022</b>
Ex-Od items / Min. Int.	(8,991)	708	869	1,709
<b>Adj. PAT</b>	<b>13,323</b>	<b>1,296</b>	<b>40,819</b>	<b>45,953</b>
<b>Avg. Shares O/S (m)</b>	<b>2,065.2</b>	<b>2,065.2</b>	<b>2,065.2</b>	<b>2,065.2</b>
<b>EPS (Rs.)</b>	<b>6.5</b>	<b>0.6</b>	<b>19.8</b>	<b>22.3</b>

**Balance Sheet Abstract (Rs m)**

<b>Y/e March</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
Shareholder's Funds	383,285	384,138	422,082	464,441
Total Debt	684,050	674,513	676,684	641,231
Other Liabilities	57,193	45,168	44,253	44,143
<b>Total Liabilities</b>	<b>1,124,528</b>	<b>1,103,819</b>	<b>1,143,019</b>	<b>1,149,814</b>
Net Fixed Assets	734,966	850,942	731,712	719,233
Goodwill	131,602	139,852	139,852	139,852
Investments	123,463	143,239	145,023	146,842
Net Current Assets	120,567	93,640	110,434	127,889
<i>Cash &amp; Equivalents</i>	<i>53,090</i>	<i>43,120</i>	<i>41,659</i>	<i>46,980</i>
<i>Other Current Assets</i>	<i>374,337</i>	<i>348,315</i>	<i>372,722</i>	<i>392,795</i>
<i>Current Liabilities</i>	<i>306,861</i>	<i>297,795</i>	<i>303,947</i>	<i>311,885</i>
Other Assets	13,930	15,998	15,998	15,998
<b>Total Assets</b>	<b>1,124,528</b>	<b>1,243,672</b>	<b>1,143,019</b>	<b>1,149,814</b>

**Cash Flow Abstract (Rs m)**

<b>Y/e March</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
C/F from Operations	71,431	102,710	115,070	124,945
C/F from Investing	(37,931)	(32,812)	(67,829)	(36,342)
C/F from Financing	(24,371)	(72,594)	(48,703)	(83,283)
Inc. / Dec. in Cash	9,129	(2,696)	(1,461)	5,320
Opening Cash	34,576	44,327	41,631	40,170
Closing Cash	43,705	41,631	40,170	45,490
FCFF	(76,364)	(210,788)	156,251	46,297
FCFE	(39,266)	(220,325)	158,421	10,844

**Quarterly Financials (Rs m)**

<b>Y/e March</b>	<b>Q3FY16</b>	<b>Q4FY16</b>	<b>Q1FY17</b>	<b>Q2FY17</b>
<b>Net Revenue</b>	<b>81,013</b>	<b>86,675</b>	<b>75,847</b>	<b>90,123</b>
<b>EBITDA</b>	<b>6,226</b>	<b>11,664</b>	<b>11,247</b>	<b>11,564</b>
<i>% of revenue</i>	<i>7.7</i>	<i>13.5</i>	<i>14.8</i>	<i>12.8</i>
Depr. & Amortization	3,080	3,412	3,382	3,516
Net Interest	5,824	5,747	5,996	5,943
Other Income	2,501	2,041	2,262	3,364
<b>Profit before Tax</b>	<b>313</b>	<b>4,547</b>	<b>4,131</b>	<b>6,318</b>
Total Tax	(92)	983	1,189	1,929
<b>Profit after Tax</b>	<b>405</b>	<b>3,563</b>	<b>2,943</b>	<b>4,389</b>
<b>Adj. PAT</b>	<b>(229)</b>	<b>3,563</b>	<b>2,943</b>	<b>3,800</b>

**Key Financial Metrics**

<b>Y/e March</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
<b>Growth</b>				
Revenue (%)	18.9	(4.1)	4.7	5.1
EBITDA (%)	7.9	(2.5)	50.7	3.7
PAT (%)	(46.5)	(90.3)	3,050.5	12.6
EPS (%)	(46.6)	(90.3)	3,050.5	12.6
<b>Profitability</b>				
EBITDA Margin (%)	8.6	8.7	12.6	12.4
PAT Margin (%)	1.3	0.1	3.9	4.2
RoCE (%)	3.3	3.0	6.6	6.8
RoE (%)	3.4	0.3	10.1	10.4
<b>Balance Sheet</b>				
Net Debt : Equity	1.6	1.6	1.5	1.3
Net Wrkng Cap. (days)	10	6	11	15
<b>Valuation</b>				
PER (x)	26.7	274.7	8.7	7.7
P / B (x)	0.9	0.9	0.8	0.8
EV / EBITDA (x)	11.0	11.3	7.5	7.0
EV / Sales (x)	0.9	1.0	0.9	0.9
<b>Earnings Quality</b>				
Eff. Tax Rate	75.4	140.9	25.7	25.0
Other Inc / PBT	48.4	174.9	29.3	26.4
Eff. Depr. Rate (%)	4.0	3.6	4.4	4.4
FCFE / PAT	(294.7)	(17,005.3)	388.1	23.6

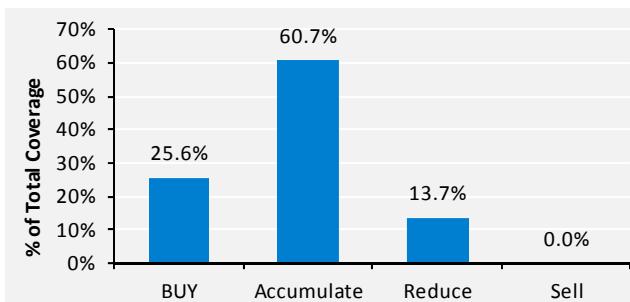
*Source: Company Data, PL Research.*
**Key Operating Metrics**

<b>Y/e March</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
Aluminium (Al) prod (t)	836,000	1,136,000	1,263,240	1,276,000
Copper (Cu) prod (t)	386,000	389,000	382,500	400,001
LME-Al (USD/t)	1,890	1,591	1,650	1,700
LME-Cu (USD/t)	6,568	5,217	5,000	5,300

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<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
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<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
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